



WEEKLY OUTLOOK

A joint publication
and the Department
University of Illinois

Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana,
Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences,
University of Illinois at Urbana-Champaign.

JUNE 4, 2001

WEATHER AND CROP CONCERNS EMERGE

With adequate U.S. stocks and record South American production, corn and soybean prices have remained under pressure during the early part of the 2001 U.S. crop year. Most have expected prices to continue to languish unless crop concerns developed. After trading to a contract low of just under \$1.88 on May 29, July 2001 corn futures moved about \$.10 higher by the close of trade on June 1. December 2001 corn futures rallied by a similar amount. From the low of May 29 to the high on June 1, July 2001 soybean futures rallied \$.22, but closed off the highs. November 2001 futures followed a similar pattern.

Last week's small rally began in soybeans, with a continued high rate of consumption providing fundamental support. Lingering cool, wet weather in the U.S. raised concerns about the completion of corn and soybean planting in the U.S. Some land intended for corn in Wisconsin, Minnesota, and North Dakota may not get planted to corn due to the lateness of the season. Those areas may be seeded to soybeans, if weather permits. Cool, wet conditions also raised concerns about the progress of the crops, both corn and soybeans, already seeded and emerged. The USDA's weekly report of crop conditions, to be released after the market closes on June 4, is expected to show further deterioration in overall crop ratings for corn and soybeans.

Current weather and crop conditions in the U.S. do not represent a significant threat to the crop, if warmer weather develops soon. Ample moisture along with warmer weather would result in rapid crop growth and improvement in crop ratings. However, below normal temperatures are expected to continue in much of the growing area for most of this week. In addition, other crop concerns are unfolding around the world. Three areas of dry conditions are especially important. These include the corn growing areas of China and portions of the wheat growing areas in Canada and Australia. China suffered dry conditions and a small corn crop last year. A second consecutive small crop remains a possibility. The dryness in Canada and Australia and the threat to the wheat crops there adds to the supply concerns generated by prospects of a significant cut in U.S. wheat production this year. For the first time in nearly six years, weather and crop concerns extend beyond more than one or two major production areas and

The current supply concerns may be sufficient to prevent prices from moving below recent lows in the near term. The dry conditions in parts of Canada, Australia, and China are of more concern than the cool, wet conditions in the U.S. Precipitation is always preferred to dry weather. However, the slow start to the U.S. growing season in some areas for both corn and

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soybeans suggests that a full growing season will be required for all of the crops to reach maturity. The current situation has some similarities to 1996, when a wet spring delayed planting and required a fair amount of replanting in some areas. That year, most areas enjoyed a later-than-normal first freeze so that crops had an extended growing season. Both average yields and production were relatively large in 1996.

The potential price increase associated with current supply concerns is difficult to judge. Changing weather and crop conditions will make production potential uncertain for two or three months. The end user's response to supply concerns will also be important. Current prices are low enough that widespread crop worries could trigger a significant amount of commercial buying. If crop concerns do continue, December 2001 corn futures and November 2001 soybean futures should be able to make additional advances from the recent lows. Some simple technical indicators suggest some targets for such a recovery. For December corn futures, these targets are roughly in \$.10 increments from \$2.20 to the early winter high around \$2.60. For November 2001 soybean futures, these targets are roughly in \$.25 increments from \$4.50 to \$5.25.

If the weather concerns fade, new lows in both the corn and soybean markets are possible. Weather markets can present selling opportunities, but are difficult to judge. For new crop corn, a move above the CCC loan rate will force producers to make pricing decisions. Some might want to consider using options, or minimum price contracts, to protect a price above the loan rate.

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820